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Current Support Brief

EXPANSION OF PERU'S MINERAL INDUSTRIES
MAY BE HINDERED BY CIVIL DISTURBANCES



CIA/RR CB 63-14

6 February 1963

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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EXPANSION OF PERU'S MINERAL INDUSTRIES
MAY BE HINDERED BY CIVIL DISTURBANCES

Sabotage in December 1962 of the US-owned Cerro Corporation's smelter and refinery at La Oroya, Peru, and acts of violence in other parts of the country could lead to a curtailment of investment by US firms in Peruvian metal and mineral industries. 1/ To date, Peru has been heavily dependent on US capital for development of this important sector of its economy. 2/ Western European investment has been minor, and Soviet Bloc participation has been nonexistent.

1. Damage to Cerro

The incident at La Oroya, which the US Embassy in Lima believes to have been one of a series of coordinated attacks by Communists on major agricultural and industrial facilities in Peru, 3/ resulted in damage estimated by company officials at about \$3 million (all value references are to current US dollars). Two large warehouses and their contents were destroyed almost completely (with salvage estimated to be no more than 2 percent), including such equipment and supplies as electrical equipment, motors, transformers, wire, and instruments and crucibles, cement, soda ash, and tools. In addition, the Cerro office and a laboratory were gutted, a small auxiliary mill was damaged, and some repairable damage was inflicted on instruments and scales in the main producing facilities. 4/ This attack, which appears to have followed a preconceived plan, 5/ was directed at those points that would cause significant financial loss to the owners but would not seriously impair the operations of the plant. Although the stoppage in production did result in a loss of output worth \$2.5 million (gross), the plant resumed operations within 2 weeks. 6/

2. Impact on Private US Investors

As of 17 December, Cerro, which has invested about \$100 million in Peru during the past 12 years, 7/ was actively engaged in the construction of a drainage tunnel, to cost \$8 million, at its Casapalca Mine; had planned

S-E-C-R-E-T

S-E-C-R-E-T

an immediate expansion of its zinc refining capacity and modernization of its ore concentrating facilities; and, in the longer run, had planned in association with private Peruvian interests to develop a new but small copper mine. As of 14 January 1963, [REDACTED] the company planned to continue the construction of the drainage tunnel (necessary to protect investment already made), to adopt a "wait and see" policy with regard to the proposed expansion of zinc refining capacity and modernization of the concentrating plants, and to abandon the proposed small mine development. 8/ There is some indication that the Peruvian interests which were involved initiated the change in plans for the latter proposition because of their concern over the civil disorder. 9/ Whether the recent actions of the government of Peru to increase its security measures, including the arrest of more than 400 Communists and other leftists, 10/ has resulted in any revision of Cerro investment plans is not known.

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Although knowledge of any specific changes in investment plans by other foreign private investors in Peru has not become available, the [REDACTED]

[REDACTED] is that all private investors now are reviewing their commitments and, as he put it, "have lost their enthusiasm for investment in Peru." 11/ This statement may be too strong, but it probably does reflect the development of considerable apprehension by investors, in general, concerning the risks involved in future investment in Peru.

3. Governmental Encouragement of Foreign Investors

The government of Peru is attempting to develop and expand the metal and mineral industries and has been encouraging foreign private and governmental participation. A major expansion of Peru's small but modern steel industry is underway under the direction of a Swiss - West German combination, which is expected to raise output from 70,000 metric tons (mt) annually at present to 270,000 mt by 1964 and to 500,000 mt by 1970. 12/ An option for development of a phosphate mine in the Sechura Desert, involving an investment of about \$21 million, reportedly has been taken jointly by the US-owned Homestake Mining Company and Midepsa Industries, Limited, of Canada. 13/ Japanese and Western European investors also

- 2 -

S-E-C-R-E-T

S-E-C-R-E-T

have examined the large phosphate deposits and other properties but are not believed to be actively involved at this time. 14/ An unconfirmed report of a recent discovery of large, high-grade reserves of bauxite has raised hopes for a potential bauxite mining industry and possibly for an eventual aluminum industry. 15/ The government of Peru itself has undertaken a series of feasibility studies, financed in part by \$3 million obtained from the US Agency for International Development (AID), which include among other projects proposals for development of a phosphate mine and a zinc refinery. 16/ Both of these projects, however, remain in an embryonic stage, and neither has been approved as yet by AID for development. 17/ Up to now, however, Peru has not received any US public funds that have been earmarked specifically for use in the mining and metallurgical industries. 18/

4. Current Position of Private US Investors

As of 1961, about 95 percent of private investment in the mineral industries of Peru (possibly referring only to mining activity and excluding metal processing) was held by US companies, the principal of which were the American Smelting and Refining Company, the Cerro Corporation, the Newmont Mining Corporation, the Phelps Dodge Company, the Cyprus Mining Corporation, and the Utah Construction and Mining Company. 19/ With the exception of investment in a small steel mill at Chimbote in which French interests hold 20 percent, 20/ foreign investment other than that by US investors has played little part to date in the development of the mining and metallurgical industries of Peru. A list of the major US holdings in Peru follows:

Peruvian Company
(The US parent company
follows in parentheses) 21/

Facilities

Cerro de Pasco
Mining Corporation
(Cerro Corporation)

This company is the largest producer of metals and minerals in Peru and is the second largest producer of copper. Facilities include polymetallic (copper, lead, zinc, and other) mines and concentrating plants at Morococha,

- 3 -

S-E-C-R-E-T

S-E-C-R-E-T

Peruvian Company
(The US parent company
follows in parentheses) 21/

Facilities

Cerro de Pasco
Mining Corporation
(Cerro Corporation)
(Continued)

San Cristobal, Casapalca, Yauricocha, and Cerro de Pasco; a large custom concentrating plant at Mahr; a large smelting and refining plant at La Oroya; a short railroad; several hydroelectric plants; coal mines; and numerous auxiliary facilities.

Northern Peru Mining
Company
(American Smelting and
Refining Company)

The principal output of this firm is copper. In terms of total output, however, the production is relatively small. Facilities include a mine and a concentrating plant at Quirubilca.

Southern Peru Copper
Corporation
(joint ownership by
Cerro Corporation,
American Smelting and
Refining Company,
Newmont Mining Corporation, and Phelps
Dodge Company)

A relatively new producer that in 1961 accounted for more than half of the total production of copper. Major facilities include a large mine at Toquepala and a smelter at Ilo.

Marcona Mining Company
(Cyprus Mines Corporation and Utah Construction and Mining Company)

This company is the largest producer of iron ore in Peru. In addition to large exports, it supplies the needs of the domestic steel mill at Chimbote. Facilities include a large mine at Marcona and an ore processing plant at San Juan.

Although the specific plans for investment by the Southern Peru Copper Corporation are unknown, as of December 1962, the Northern Peru Mining Company planned to expand its mining operations, and the Marcona Mining Company in association with the Mitsui Bussan Kaisha Company of Tokyo planned to set up an iron pelletizing plant for use in production of sponge iron. 22/

S-E-C-R-E-T

S-E-C-R-E-T

5. Significance of the Industries

The ability to maintain and to expand the mining and metallurgical industries is very important to the economy of Peru. In 1961, when the total industrial contribution to gross national product in Peru was no more than 25 percent, the mining and metallurgical industries contributed about 12 percent. 23/ Furthermore, of total Peruvian exports in 1961, more than 44 percent consisted of products from the mining and metallurgical industries. 24/ Of the metal and mineral exports, valued at about US \$220 million that year, more than 82 percent were provided by the nonferrous sector. 25/ The principal metals and minerals produced and exported by Peru in 1961 were as follows 26/:

Commodity	Output		Exports	
	Metric Tons	Percent of World	Metric Tons	Value (Million \$)
Copper	197,994	4	197,821	107.1
Iron ore (Fe content)	3,281,000	Negl.	3,389,061	36.8
Silver	1,041	13	1,037	27.4
Lead	140,000	6	141,143	22.3
Zinc	176,273	6	206,402	19.5
Gold			2.3	2.4
Tellurium	34.6	15	33.9	0.4
Bismuth	467	19	331	1.4

6. Soviet Bloc Participation

The only trade with Bloc countries reported by the Peruvian government in recent years involved the sale of 500 mt of copper concentrates to Poland in 1961 27/ by a small, privately owned Peruvian mining firm, Cobre Acari, which produced only 800 mt during the entire year. 28/ The USSR reported that it purchased 3,700 mt of copper from Peru in 1961, 29/ but these data may have reference to copper sold by Peruvian firms in Western Europe and resold to the USSR. The Netherlands Bureau of Statistics reported that copper of Peruvian origin moved to the USSR and the European Satellites in its transit trade in 1959. 30/

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S-E-C-R-E-T

Analysts:

Coord:

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- 6 -

S-E-C-R-E-T

S-E-C-R-E-T

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- 7 -

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